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TREASURY DEPARTMENT
U. S. FEDERAL FARM LOAN BOARD

Circular No. 6

# Farm Loan Bonds

ISSUED BY THE
FEDERAL FARM LOAN BOARD

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**FEDERAL FARM LOAN BOARD.**

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WILLIAM G. McADOO, *Secretary of the Treasury, Chairman.*
GEORGE W. NORRIS, *Farm Loan Commissioner.*
CHARLES E. LOBDELL.
W. S. A. SMITH.
HERBERT QUICK.
W. W. FLANNAGAN, *Secretary.*



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## FARM LOAN BONDS.

The Federal Farm Loan Act of July 17, 1916, created a Bureau in the Treasury Department, under the general supervision of a Federal Farm Loan Board, consisting of the Secretary of the Treasury, as chairman, and four members appointed by the President. It was made the duty of this Board to divide the continental United States (exclusive of Alaska) into 12 districts and to organize in each one of these districts a Federal land bank. Each one of these banks is to start business with $750,000 capital, making the aggregate capital of the 12 banks $9,000,000. The Secretary of the Treasury was directed to subscribe, on behalf of the United States Government, to any stock not otherwise subscribed for within 30 days of the opening of the subscription books, and in pursuance of this direction $8,879,905 has been subscribed on behalf of the Government.

These banks are authorized to make loans to farmers upon first mortgages, and to pledge these mortgages as collateral security for bonds to be sold to investors, the proceeds of the sale of these bonds to be used in making additional mortgage loans.

The act "looks to the launching of a second national-bank system * * * to afford facilities to citizens engaged in the basic industry of agriculture to secure credit with which successfully to carry on their operations so essential to the general welfare and to which the value of their property ought to entitle them."

In response to numerous inquiries the following information has been compiled in reference to the FARM LOAN BONDS to be issued by the FEDERAL LAND BANKS under the provisions of the act.

These bonds will be issued in series of not less than $50,000 (probably not less than $250,000) each, as and when authorized and approved by the Federal Farm Loan Board, after such investigation and appraisement as it shall deem wise. They will be the obligations of the issuing bank.

Denominations. $25, $50, $100, $500, and $1,000.

Form. Coupon, may be exchanged into registered. Coupons payable at any one of the 12 banks.

Term. Twenty years, redeemable after 5 years at par.

Interest. Rate 4½ per cent, payable semiannually.

Security. Pledge of an equal amount of first mortgages on cultivated farms. These mortgages are limited to 50 per cent of the value of the land mortgaged and 20 per cent of the value of the permanent insured improvements, as determined by two separate appraisements, of which the second is to be made by an appraiser appointed by the Farm Loan Board. The equality between the amount of bonds outstanding and the amount of collateral pledged will always be maintained by the redemption of bonds or the addition of collateral, but as every loan will be made on the amortization plan, the principal of each mortgage will be reduced annually, thus effecting a continuing increase in the "equity" or difference between loans and land values.

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Each mortgage is guaranteed by a "Farm Loan Association," of which the borrower is a member and stockholder. On this stock there is a double liability. Each association is required to buy stock in the bank to the amount of 5 per cent of the loans to its members, and this stock is held by the bank as security on the association's guaranties. Each bank will start business with assets of $750,000, derived from the sale of its capital stock. This stock will increase with each loan made, to the amount of 5 per cent of such loan, until it reaches $1,500,000, after which the repayment of the $750,000 originally subscribed will begin, such repayment being concluded when the aggregate capital reaches $3,000,000. Twenty-five per cent of the net earnings must be carried to reserve account until that account shall equal 20 per cent of the outstanding capital, and 5 per cent thereafter. The total issue of bonds is limited to 20 times the capital stock of the issuing bank.

Joint liability.

The 12 Federal land banks are jointly liable for interest payments upon the bonds issued by any one of their number, and for such portion of the principal as shall not be paid after the assets of the issuing bank have been liquidated and distributed

Certification.

Each bond is to contain on its face a certificate, signed by the farm loan commissioner, that it "is issued under the authority of the farm-loan act, has the approval in form and issue of the Federal Farm Loan Board, and is legal and regular in all respects; * * * that it is issued against collateral security of United States Government bonds, or indorsed first mortgages on farm lands, at least equal in amount to the bonds issued; and that all Federal land banks are liable for the payment of each bond."

Safeguards.

The bonds will be engraved at Washington, by the Bureau of Engraving and Printing, and the use of the Secret Service is authorized to protect them from counterfeiting.

Legal investments.

They are made lawful investments for all fiduciary and trust funds and security for all public deposits under the jurisdiction and control of the Federal Government. They are already legal investments under the laws of some of the States, for the funds of savings banks, insurance companies, guardians, and trustees, and legislation is pending to make them legal in most of the other States.

Postal savings depositaries.

They are acceptable at par to secure postal savings deposits.

Banks.

They may be bought and sold by any member bank of the Federal Reserve System.

Exemption from taxation.

They are expressly declared to be "instrumentalities of the Government of the United States," and as such exempt, both as to principal and the income derived therefrom, from Federal, State, municipal, and local taxation.

Federal supervision.

The registrars, appraisers, and examiners are appointed by the Federal Farm Loan Board, and the operations of both the farm loan associations and the Federal land banks will be at all times subject to the examination and supervision of the Board.

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